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March 5, 2003

Donald Abelson,
Chief, International Bureau,
Federal Communications Commission,
445 12th St., S.W.,
Washington, DC 20554.

Re: Petitions for Protection from Whipsawing on the
US-Philippines Route (IB Docket No. 03-38)
Ex Parte Presentation
Philippine Long Distance Telephone Company ("PLDT")

Dear Mr. Abelson:

This letter responds to the letter dated March 3, 2003 from AT&T ("AT&T Letter"), which itself was a response to PLDT's *ex parte* presentation dated February 27, 2003. Because AT&T has made several erroneous assertions, PLDT is compelled to respond. Given that the Commission seeks to give expedited consideration of this matter, we limit our response to just a few points regarding AT&T's unwarranted allegation of collusion, the falseness of which is compounded by the AT&T Letter.

AT&T admits that "parallel behavior" and "price leadership" "may occur in competitive markets," but nonetheless argues that there can be no such "conscious parallelism" in the Philippine market, and that the local interconnection agreements among Philippine carriers effectively set "price floors" at a "cartel price." AT&T Letter at 1-2. AT&T's argument is nonsense, and displays a basic misunderstanding of the local Philippine operating and regulatory environment.

First, regarding conscious parallelism, although the specific rates negotiated between a particular Philippine carrier and a particular U.S. carrier generally are negotiated confidentially, Philippine carriers -- like carriers in the US and other competitive markets -- are nonetheless aware of the "going rate" at any given time. For example, when Philippine carrier A requests that Philippine carrier B pay an interconnection rate of X cents per minute when B sends A international traffic, B can surmise that X is at or near the rate that A charges non-Philippine carriers for terminating international calls directly with it. Thus, the suggestion that conscious

parallelism cannot occur in the Philippine market merely because international rate negotiations are confidential has no basis whatsoever.¹

Second, AT&T simply is wrong in stating that all the Philippine carriers requested the same rate increase “in the same period in November 2002.” AT&T Letter at 2. As clearly stated in the Obias declaration, and supported by contemporaneous correspondence and not contradicted by AT&T, PLDT notified AT&T in May 2002 that it intended to raise its termination rates, effective August 1. Obias Decl. ¶ 2 & Ex. 1. PLDT continued to press for a rate increase throughout the third and fourth quarters of 2002, but -- ceding to AT&T’s threats to divert traffic away from PLDT -- agreed on several occasions to extend the 8 cent rate, ultimately through January 2003. Obias Decl. at ¶¶ 2-4.²

Third, AT&T is also wrong in stating that Philippine carriers have “taken the exact same” measures against AT&T in the face of its refusal to pay higher termination rates. AT&T Letter at 2. Although PLDT does not have first-hand knowledge of the measures taken by other Philippine carriers, Globe states that it “has not blocked AT&T’s direct circuits,” but only the “off-net” traffic it handles that is destined for other Filipino carriers, Globe Opp. at 3-4, and AT&T has publicly announced that Digital is “improving its call completion rates for US originated calls to the Philippines,” and even praised Digital for its “leadership in improving the flow” of calls. Digital Supp., dated Feb. 27, 2003, at 2 & Attachment.³ This is hardly the lock-step, cartel-like behavior alleged by AT&T.

¹ This is not to say that the specific termination rates agreed to between a U.S. carrier and a Philippine carrier are transparent. Such agreements often diverge from the “going rate” in important respects, by, for example, providing volume discounts, or differing rates depending on whether the traffic is “pre” or “post” paid, or is “on-net” or “off-net.” See Declaration of Ramon Alger P. Obias, dated Feb. 21, 2003 (“Obias Decl.”), at Ex. 1 (showing volume discounts agreed to with AT&T).

² Mr. Obias’ description of the contentious rate negotiations between AT&T and PLDT belies AT&T’s insinuation that PLDT willingly and freely accepted a continuation of the 8 cent rate ever since it was first adopted in 2000. AT&T letter at 3; Obias Decl. at ¶¶ 2-11. Regarding the traffic volumes promised by AT&T, the fact is that AT&T initially committed, in 2000, to send PLDT a firm volume of traffic in exchange for PLDT agreeing to the 8 cent rate. As AT&T admits, however, it later insisted on a “best efforts” clause with no firm commitment at all – thus undermining the justification AT&T originally offered for the 8 cent rate. AT&T Letter at 3. Finally, as shown in Attachment A, both the total volume of on-net fixed traffic sent by AT&T to PLDT, and the revenue PLDT derives from this traffic, declined by more than 25 percent between January 2001 and December 2002. AT&T’s reference to increased traffic volume “since 1996” (*id.*), is irrelevant.

³ Digital, for its part, is quite clear that it has not blocked any AT&T traffic from terminating on its circuits. Digital Supp. at 2-3.

Fourth, AT&T utterly misconstrues the purpose and effect of the interconnection agreements that Philippine carriers enter into with one another.⁴ Citing Globe's separate interconnection agreements with each of PLDT, Smart, Bayantel, and Digital, AT&T charges "conspiracy" based on the fact that these agreements provide for the same rates. It is no conspiracy, given that interconnection agreements are mandatory under Philippine law and must be agreed to by all carriers. When Philippine law requires that interconnection rates be offered on a non-discriminatory basis, it is not unexpected, and certainly not sinister, that interconnection rate uniformity may result.

AT&T is also wrong in arguing that the interconnection agreements between Globe and other Philippine carriers set "price floors" for international traffic. AT&T Letter at 2. In fact, these agreements relate only to "off-net" traffic, and they in no way prevent Globe, PLDT, or any other Philippine carrier from charging less than 12 cents per minute for on-net traffic sent directly from the U.S. to their own circuits. Thus, they in no way inhibit free competition (let alone prevent "cheating" from some fictitious "cartel price," as AT&T alleges). AT&T Letter at 2.

Finally, AT&T provides no evidence to refute the Arbinent data submitted by PLDT showing that termination rates for fixed line traffic into Manila are available at below 12 cents per minute. See PLDT's *ex parte* presentation, dated Feb. 27, 2003, at 2 & Attachment A. This data shows that there is no "cartel price," as AT&T alleges. After filling the record with strident, but false, claims, all AT&T can say in response to this point is that it "believes" that its "average cost of termination" in the Philippines through "alternative routes" has exceeded the average cost that it would have incurred at the 12 cent rate sought by Philippine carriers. AT&T Letter at 4. This statement hardly supports its assertion that all carriers uniformly are charging it a 12-cent per minute rate. To the contrary, AT&T essentially concedes by this statement that some carriers are charging it less than 12 cents per minute and that not all the rates being charged to it are the same.

⁴ AT&T asserts that PLDT "offers no explanation for" these interconnection agreements, AT&T Letter at 2, ignoring that PLDT responded to this allegation in its original Opposition submitted on February 21, 2003. PLDT Opp. at 6 n.13.

Donald Abelson
March 5, 2003

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Respectfully submitted,

PHILIPPINE LONG DISTANCE
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March 5, 2003

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AT&T to PLDT Inbound Minutes and Revenue
2001 - 2002
(On Net Fixed Traffic)

Month/Year	Minutes (Millions)	Gross Revenue (Million US\$)
Jan-01	18.36	1.47
Feb-01	14.84	1.19
Mar-01	14.29	1.14
Apr-01	11.50	0.92
May-01	9.85	0.84
Jun-01	8.35	0.71
Jul-01	11.33	0.94
Aug-01	19.49	1.59
Sep-01	19.69	1.61
Oct-01	11.16	0.93
Nov-01	14.41	1.19
Dec-01	15.66	1.30
Jan-02	15.06	1.27
Feb-02	13.60	1.15
Mar-02	13.28	1.12
Apr-02	8.46	0.72
May-02	8.65	0.74
Jun-02	7.57	0.64
Jul-02	9.31	0.70
Aug-02	10.33	0.78
Sep-02	12.48	0.94
Oct-02	13.26	0.99
Nov-02	11.50	0.86
Dec-02	13.89	1.04